



City of Savannah

November 16, 2015

To the Honorable Mayor and Aldermen:

The values of our organization are founded on pillars of TRUST, TRANSPARENCY, and ACCOUNTABILITY: Public service and engagement; Respect; Innovation and sustainability; Diversity and inclusion; and Ethics and integrity. It is in the spirit of these values that I am pleased to present the *2016 Service Program and Budget*.

During my tenure as City Manager, I have consistently sought to promote a vision of Savannah as the most livable and best managed city in the world through structurally balanced budgets guided by the ideals of trust, transparency and accountability. The financial plan set forth for FY 2016 is no exception. It represents our continuing commitment to provide our community with a wide range of public services that contribute to Savannah's vibrant culture and livability in compliance with the priorities set by Council.

Budget appropriations were made in consideration of 1) recommendations noted by Council; 2) service delivery improvement needs; and 3) the 2016-2020 Five Year Capital Program which addresses a variety of infrastructure needs.

The 2016 budget:

- ✓ Is balanced with revenues equal to expenditures;
- ✓ Addresses numerous critical service priorities-most notably in the areas of public safety, public works and community development;
- ✓ Proposes smart, value-added investments in the City's technology, equipment, and infrastructure;
- ✓ Values and rewards our employees for the exceptional work they perform on behalf of the community each and every day and;
- ✓ Carefully balances the service demands of a growing community with ongoing concerns.

The key areas emphasized in this budget include public safety, staff training and development, customer service, housing opportunities, and infrastructure maintenance.

From the outset of this year's budget development process, staff's primary focus has been one of keeping tax and utility rates as low as possible without negatively impacting service delivery. In pursuit of this goal, I informed bureaus and departments in May to review their workforce planning to link financial resources to the mission, vision, goals and objectives of their operational plans. I also held budget hearings with each Bureau whereby departmental cost drivers and service improvement requests were evaluated. Concurrently, we launched a review of revenue and expenditure drivers city-wide which resulted in a contribution of \$500,000 to general fund reserves for fiscal year 2015.

Another facet of this spending plan pertains to the level of compensation that we provide our employees. Data supports what we already know—costs continue to rise. We remain committed to providing our exemplary workforce with a compensation structure that not only is competitive within the regional labor market but is equally responsive to the rising cost of living within the community they serve. As such, the budget includes funding for a general wage increase for civilian employees and fully funds the increased base pay and other compensation provisions implemented in July 2015 associated with public safety personnel.

In short, the \$364 million 2016 Budget seeks to consolidate our many successes while still making the targeted, high-value investments necessary to maintain municipal services; improve and strengthen the financial condition of our General and Enterprise funds; and still promote affordability for our residents.

Through a combination of disciplined decision-making, creative problem solving and hard work, we have maintained and/or expanded core service delivery while restraining spending growth to become leaner, smarter, and more efficient as an organization, thus resulting in greater value for our citizens. Over the last three years, our efforts have included:

- Working proactively to improve the long-term financial health of the Employee Retirement System;
- Implementing enhanced employee wellness programs which have allowed us to hold year-over-year cost growth of health insurance to sustainable levels;
- Postponing performance-skilled increases for over two years however awarding general wage increases;
- Implementing a rigorous hiring process for sworn police positions;
- Repurposing positions to higher-demand service areas to administer new programs without adding personnel.

Two short years ago, the forecast for 2014 projected an annual budget shortfall of \$4.41 million even after assuming adoption of the rollback tax rate. As a result of the aggressive and proactive steps we have taken, the *2016 Service Program and Budget* represents the sixth consecutive annual budget that does not include a millage rate increase. The City's reserve funds are healthy and growing putting us in good standing with financial rating agencies that consistently reaffirm the City's AA+ credit worthiness. To our common credit, we have achieved this structural stability while avoiding a single employee layoff and maintaining and/or expanding the core services most valued by our residents and stakeholders. I salute the team of employees for their commitment to striving for excellence in our delivery of city services to the citizens of Savannah.

2016 Service Program and Budget maintains resources to address Council priorities

Budget appropriations in the *2016 Service Program and Budget* total \$363,930,031. This is a 1.7% increase above the 2015 projected budget.

Progress in Achieving Strategic Priorities

Steady and sustainable progress has been made in achieving Council's strategic priorities. In support of your Council Priority of Ambassadorship, the City joined forces with community partners to implement a pilot Ambassador Program termed "Savannah Serves", with plans for full implementation in 2016. The mission of this new initiative is to promote a clean and safe downtown area while enhancing the "Savannah Experience" for residents, businesses and visitors.

Public Safety. In accordance with Fire Strategic Plan recommendations to upgrade effective fire response objectives city-wide, this budget includes grant funding to offset personnel costs for thirty-five firefighters providing relief in excess of \$2M on general operating funds.

Reducing crime and the perception of crime continue to be top concerns of our citizens and top priority for the City. Although progress has been made, the crime rate is still too high. We have witnessed a disturbing trend of increasing youth violence and disrespect for the law and human life that **MUST CEASE!** SCMPD's Savannah Impact Program has been working with our youth in the Summer Pre-Apprentice Program that focuses on life skills, work ethics, literacy and financial management.

The SCMPD has committed to providing accurate and timely information for officers to respond to crime by developing tactics that are effective in Savannah and Chatham County. The Department has augmented efforts with the community to focus on youth crime and violence. Information exchange between the City and the Board of Education's Police Department regarding activity in our schools has allowed for better preparation and response by both departments. The youth in our schools are also the youth in our neighborhoods and community.

In 2016, we look forward to the continued streamlining of the command and organization to be the most efficient and effective public safety agency in southeast Georgia. We will continue to focus on improving the quantity and quality of training offered to our officers and command staff. Additional leadership training has been implemented for our newly promoted as well as the existing command staff in order to continue strengthening our organization as we move forward into the next fiscal year.

In the last three years, we have focused on the use of technology to improve the effectiveness of our police officers. We are continuing to build on our use of technology to create hot spots in each precinct for data transfer further strengthening police intelligence. These additional resources, along with continued management focused on community-oriented policing, improved technology, equipment and other resources such as ShotSpotter, "End Gun Violence: STEP FORWARD," and body-worn cameras will ensure that crime prevention and case solving strategies are more effective.

Housing Initiatives. A priority for the City is to help improve housing conditions and opportunities for home buyers, homeowners and tenants through both public and private partnership and investment. To accomplish this, the Housing Department seeks financial support and participation from foundations, institutions, businesses and corporations to increase partnerships; increase private investment; and increase home ownership that will result in planned revitalization efforts. One significant project that is planned to begin in 2016 and be completed in phases over the next several years is the redevelopment of the Coastal Empire Fairgrounds property on the City's west side; west of Meding Street between the Feiler Park and Tatemville neighborhoods. This public-private partnership is estimated to cost approximately \$60 million and includes about 400 varied dwellings, neighborhood retail, and new public infrastructure with an area-wide recreation complex that will be linked to the Tatemville Community Center. The conceptual plan includes installation of new public infrastructure and recreational features as evidenced in other community revitalization projects, like Ashley Midtown, Sustainable Fellwood, and Savannah Gardens. Private and non-profit developers will construct and market the new housing and neighborhood retail. It is anticipated that this investment will help stabilize and lead to other investments in adjoining neighborhoods. Pre-purchase due diligence is currently underway.

Capital Projects

Community Development. Savannah is a community of neighborhoods. The City promotes healthy neighborhoods by collaborating with community and corporate partners to fund streetscape

improvements, corridor revitalization on targeted roadways and other economic development projects in accordance with neighborhood-based planning. By fully engaging citizens in the planning and design process, we continue to make progress. In 2016 and beyond, General Fund and SPLOST capital funds will be used to support neighborhood revitalization.

The City now has an unprecedented number of major capital projects underway or planned. These projects span from extending water and sewer infrastructure, to providing state of the art recreation and community resource centers within City neighborhoods. Many of our capital projects are investments in the future health and safety of our community. For example;

- A Downtown Streetscape Master Plan will launch major streetscape improvements from Liberty Street north to the River with priority given to Broughton Street, River Street and Bay Street corridors. These improvements will greatly enhance pedestrian safety, traffic management, overall aesthetics and will result in an increased potential for commercial development along these high volume areas.
- Critical drainage design concepts will continue in 2016 that will address structural flooding in areas throughout the City. Other project cost increases are for ongoing maintenance of our water, sewer, drainage, traffic and technological infrastructure.

Challenges

Balancing the *2016 Service Program and Budget* with our aggressive work agenda and financial challenges was difficult. We must continue to be conservative with projected growth in revenue sources and closely track risk impacts.

To continue our proactive program of addressing Council priorities, this budget includes over \$3M in service expansions and improvements. While I believe these new expenditures are necessary, we must also ensure we maintain the long-term health of the City by addressing these challenges such as:

- *Funding a Risk Management* program that includes Commercial Public Liability provisions as an extra layer of protection. This budget includes an additional contribution of \$169,500 for the Risk Umbrella.
- *Installing and replacing a growing technology infrastructure.* In the past, we have successfully received federal and state funds to purchase and install state of the art technology. We must implement plans for future maintenance, upgrade and replacement of this technology at City expense. The City is also challenged with upgrading our financial software systems to remain current with provider enhancements. This budget includes \$1,338,000 to continue the phase-in of a city-wide Radio Replacement Program.
- *Rising costs of capital construction.* With rising costs of materials, we have experienced an increase in the cost of capital construction. This trend has forced us to increase the budgets for capital projects while at the same time striving to move forward aggressively the number of capital projects coming to fruition. While we have made great strides in developing and funding long-term capital maintenance plans for our water, sewer and drainage systems, we have neglected some of our buildings due to more pressing priorities, primarily in our neighborhood redevelopment efforts. The five-year capital plan continues our long-term plan to increase funding for the necessary maintenance and improvements to city facilities. To balance these critical needs against rising costs, we must pre-fund approximately \$4M in capital improvements scheduled to begin in 2016.

- *Funding Public Safety needs.* It is imperative that we have police and fire human resources in place to meet our public safety obligations throughout the City. Efficiencies gained through implementation of best practices coupled with an in-depth examination of administrative practices, will help to ensure best use of financial resources. Such efficiencies will result in more officers on the street, crime reduction and a safer community.

2016 CITY WIDE REVENUES & EXPENDITURES

We forecast that the local economy will continue to grow at a steady pace over the next five years. In Savannah, we project 14.8% growth in sales tax, 27.6% in hotel/motel tax, and 5.3% growth in the property tax digest.

Revenue Highlights

The City is continuing to meet fiscal challenges brought on by the recession, even with the challenges that come with economic decline and slow recovery. Through projecting revenues conservatively, while instituting cost saving measures to maintain fiscal stability without eliminating or cutting too deeply into our core services, the City has been able to implement needed new work programs, all reflective of creative management and a dedicated workforce. Provided below are some of these programmatic enhancements:

- Enhancement of the Youth Summer Pre-apprentice program focused on comprehensive youth development and support from the business community
- Customer service
- Community relations & Internship program
- Investment in employee retention and development
- Attractive employee benefit package incentivized by participation in wellness programs

The 2016 Budget is based on a property tax millage rate of 12.48 mills, which remains significantly below the tax rate of 17 years ago, and represents the lowest millage rate in Savannah since 1987.

City-wide budgeted revenues total \$363,930,031 for 2016. This is a 1.7% increase in comparison to the 2015 projected amount. Impacting revenues in 2016 are rate changes for utilities. These include increases for:

- **City Water and Sewer services** – Savannah's combined rates remain the lowest of all water and sewer systems in Georgia, and among the lowest of all systems in the entire Southeast, according to an independent survey. The base charges for Water and Sewer services in 2016 are unchanged from 2015; the consumption charges will increase. Overall, the impact on the combined Water & Sewer bill for the median household is \$1.50 per month to help fund necessary capital improvement/maintenance and to meet State environmental mandates.
- **Sanitation services** – Monthly residential rates for sanitation services are proposed to increase from \$30.50 to \$31.50 and Commercial Disposal rates will increase from \$4.15/cubic yard to \$4.30/cubic yard. These increases will help fund the expansion of our landfill, which will be among the largest and most important capital projects in our history.

Other revenue changes are summarized in the Financial Policies & Structure section included in the *2016 Service Program and Budget*.

Expenditure Highlights

The 2016 Operating and Capital Budgets represent a culmination of efforts to foster a fiscal planning approach that makes our budgeting processes more inclusive and transparent and to improve upon our strategic decision-making.

Key expenditure highlights include:

- Personnel services, which include salaries and wages for approximately 2,608 City employees as well as fringe benefit costs associated with City employment, represent 46.7% of City-wide expenditures after adjusting for interfund transfers.
 - Includes continued phased-in implementation of the 2015 compensation and pay study.
 - Includes a net increase of 40 positions totaling \$1,384,703.
- This budget maintains a comprehensive medical benefits plan for employees and their dependents with an employer contribution of \$19,639,295.
- The City-wide Pension Plan contribution of \$9,454,605 represents a decrease of approximately \$838,000 below the 2015 adopted budget. The General Fund portion of this contribution is \$6,729,249, a decrease of approximately \$463k below the 2015 adopted contribution.
- The Five Year Capital Improvement Program totals \$221,767,600 for fiscal periods 2016-2020. Of this total, approximately \$33M is funded by Bond financing.

GENERAL FUND REVENUES & EXPENDITURES

The General Fund is the primary operating fund of the City. It accounts for resources and expenditures traditionally associated with government. The General Fund accounts for about 52% of the City's annual operating budget. The majority of expenditures are devoted to public safety such as police, fire, building inspections, and municipal court services. Two major sources of funding for the General Fund are local property taxes and sales taxes. These two sources make up 54.6% of the general fund revenue.

General Fund Revenues and Expenditures

General Fund revenue is budgeted at \$187,584,246 for 2016. Conservative projections for sales tax and hotel/motel tax include revenue anticipated from the many visitors coming to Savannah year round.

Expenditures in the 2016 Budget have been included to maintain and in some cases enhance service program requirements with a continued focus on long-range fiscal responsibility. Fifty-one percent of General Fund expenditures will fund public safety services; 8.2% will support general government and management services, 11.8% will support leisure and cultural recreation services; and 12.8% will support environmental and infrastructure programs.

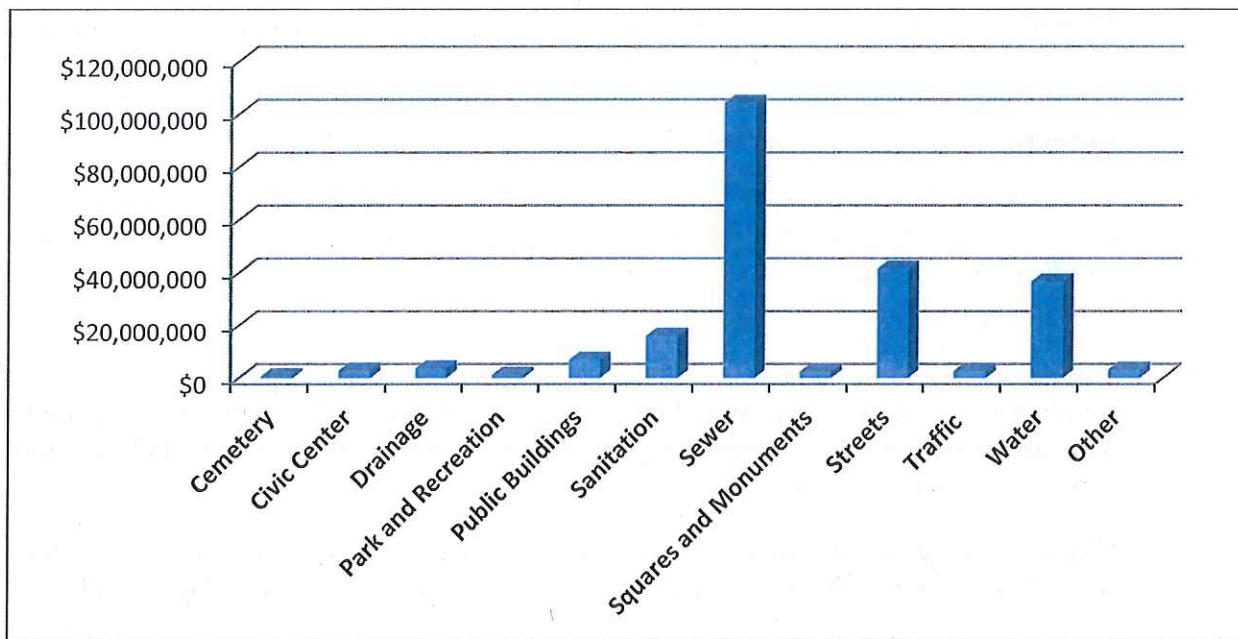
Expenditures are divided into eight major categories with changes in each highlighted below:

- **Personnel Services** represent 62% of General Fund expenditures, and include salaries and benefits for over 1,775 General Fund employees.

- **Outside Services** are services the City receives primarily from outside companies and represent 10.5% of expenditures, or \$19,635,105. Contracted services for infrastructure and other capital project design services make up the largest share of expenditures in this category.
- **Commodities** are items which, after use, are consumed or show material change in physical condition and are generally of limited value. Major expenditures in this category include gasoline and operating supplies and materials. This category is projected to decrease by 3.3% compared to the 2015 adopted budget.
- **Interfund Services** represent services provided to City departments on a cost reimbursement basis. This expenditure category represents 11% of the operating budget. The largest costs are for services provided to the General Fund by other funds, computer services, and vehicle maintenance services.
- **Capital Outlay** includes items costing more than \$5,000 each and having a useful life of more than one year. This category increases in comparison to the 2015 adopted budget.
- **Debt Service** reflects payments of principal and interest to lenders or creditors on outstanding debt. City Council has steadily reduced our debt level over time, which contributed to our recent bond rating upgrade. Our debt service costs as a percentage of general expenditures reduced from 5.1% in 2000 to 1.14% in 2016 through efficient management of the City's debt obligations.
- **Interfund Transfers**, the cost of services provided by one division to another division of government, can overstate the true overall cost of providing services in the budget. This movement of dollars between funds does not reflect any additional spending on programs or projects.
- **Other Expenses** are primarily payments and contributions to other City funds, public agencies, and private/non-profit agencies which sell services to or receive a contribution from the City. Planned funding decreases \$1,019,548 below 2015 adopted expenditures.

CAPITAL IMPROVEMENT PROGRAM

Every year, the City adopts a plan for capital improvements for the next five years. Capital improvements include projects such as street construction, public buildings, traffic systems, park improvements, water and sewer infrastructure, etc. The 2016-2020 Capital Improvement Program totals \$221,767,600 including \$32,500,000 in GO Bond financing. The graph below provides improvements by category.



The capital program also provides funding for necessary maintenance and improvements to City facilities, in addition to installing and replacing our growing technological infrastructure. A few of the improvement areas are highlighted below.

- Neighborhood/Community Improvements
- Civic Center Infrastructure Improvements
- Traffic calming and Entranceway improvements
- Streets and Sidewalk Maintenance

Details of the 2016-2020 Capital Improvement Plan can be viewed within the *2016 Service Program and Budget*.

CONCLUSION

Both as a community and as an organization, there is much for us to take pride in: Our vibrant culture and rich history; our respect and care for the environment; and our exceptional workforce.

The *2016 Service Program and Budget* strives to balance the community's demand for broader and constantly improving services, the City's rapid growth, and the inevitable annual cost drivers associated with sustaining any large organization. It provides the financial and operating plan to expand critical services and infrastructure to our citizens and businesses while maintaining the City's healthy financial position. I am confident that this spending plan strikes an appropriate balance, securing and improving the financial health of our City, while making targeted investments across various service areas.

Respectfully submitted,

Stephanie S. Cutter
City Manager